

## **Review of Audits of Outside Agencies**

February 2005

**City Auditor's Office**

**City of Kansas City, Missouri**

February 15, 2005

Honorable Mayor and Members of the City Council:

Non-municipal agencies receive substantial taxpayer support. In fiscal year 2004, 47 agencies received \$134 million in funding or pass-through money to operate or administer programs or services that further the public good. This funding represented about 18 percent of the city's general municipal program expenditures during the fiscal year.

It is important that each agency's financial management is sound. Agencies receiving \$100,000 or more from the city in a year are required to engage a certified public accountant to conduct a financial audit and a qualified professional to analyze the agency's internal control structure. The city's Code of Ordinances requires that this office report the results of the agencies' commercial audits to the Mayor, City Council, and City Manager.

Commercial auditors for 12 of the 41 agencies submitting audits had findings they were required to report. The number of agencies with findings and the number of findings increased over the prior year. Seven agencies did not submit their audits as required and an additional eight agencies did not submit the required internal control analyses.

The city has a significant financial stake in many of the non-municipal agencies. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To give a more complete picture of the financial health of these agencies, this report includes financial analyses for reporting agencies that received over \$1 million in fiscal year 2004. For these 13 agencies, we identified 8 agencies with at least one weak financial indicator and 3 agencies that did not provide their financial reports for review.

Boards of directors provide financial oversight for the agencies reviewed. This year we surveyed agencies about governance issues. Of the agencies that responded, all reported that a board or board committee reviewed the commercial audit; all but one agency had at least one board or committee member who had an accounting or financial background; and eight agencies had a board or committee member who did business with the agency or was an agency employee. One agency did not return the survey.

We appreciate the courtesy and cooperation extended to us during this project by the agencies, their accounting firms, and the city monitoring departments. We sent a draft report to the City Manager and monitoring departments for their review on February 7, 2005. The team for this project was Joyce Patton and Nancy Hunt.

Mark Funkhouser  
City Auditor

cc: Wayne A. Cauthen, City Manager

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# Review of Audits of Outside Agencies

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## **Review of Audits of Outside Agencies**

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## Introduction

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## Objectives

This review of audits of outside agencies was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the office of the City Auditor and outlines the City Auditor's primary duties. City code requires the City Auditor to review audits of outside agencies and report the negative opinions, reportable conditions, and material weaknesses to the Mayor, City Council, and City Manager on an annual basis.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.<sup>1</sup>

The purpose of this report is to provide elected officials and city staff with information on the performance of agencies receiving significant city funding and assist them when making decisions about future funding for these agencies.

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## Scope and Methodology

An outside agency is any entity with which the city contracts and/or provides funds for the operation or administration of a program or service which furthers the public good.<sup>2</sup> Our review was limited to those outside agencies receiving \$100,000 or more from the city in fiscal year 2004. This review is based on the audit reports we received from these agencies between March 5, 2004 and January 31, 2005. Audit reports are based on the agency's fiscal year, which can vary from the city's fiscal year.

Our review was performed in accordance with generally accepted government auditing standards. We do not include a written response from management because we do not make any recommendations,

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2003), p. 21.

<sup>2</sup> Contracts with the Commissioner of Purchases and Supplies, construction contracts, consultant or engineering contracts, and contracts with governmental entities are excluded.

however we provided a draft copy to the City Manager and monitoring departments. Audit methods included:

- Identifying outside agencies that received at least \$100,000 in fiscal year 2004 from the city.
- Obtaining and reviewing audits of financial statements, reports on internal controls and compliance, and management letters.
- Identifying and summarizing opinions on financial statements, reportable conditions, material weaknesses, and material noncompliance identified by the agencies' commercial auditors.
- Identifying agencies' planned corrective actions.
- Calculating selected financial ratios for those agencies receiving \$1 million or more from the city during fiscal year 2004.
- Asking agencies whether their board members review the financial audit, whether board members are employed by the agency, and whether at least one board member had a financial background.

No information was omitted from this report because it was deemed privileged or confidential.

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## **Background**

### **Legislative Authority**

Section 2-113 of the Code of Ordinances requires that city contracts include a provision that any agency receiving \$100,000 or more in city funding within a year engage a certified public accountant (CPA) to conduct a financial audit and requires the CPA to submit the audit, management letter, and response to the management letter to the City Auditor. The annual audit is to be submitted to the monitoring department within six months of the agency's fiscal year-end. In addition, the agency is required to engage a professional qualified to analyze the agency's internal control structure, and the professional is to furnish the City Auditor with a copy of the analysis.

### **Funding**

Non-municipal agencies receive substantial taxpayer support. During fiscal year 2004, the city provided 47 non-municipal agencies with over

\$134 million in total funding, representing approximately 18 percent of the city's general municipal program expenditures during that year. (See Exhibit 1.) Eight city departments contract with these outside agencies and are responsible for monitoring the agencies' performances.<sup>3</sup> The magnitude of the city's expenditures devoted to non-municipal agencies makes it important for elected officials to be informed of any concerns expressed by an agency's commercial auditor that may jeopardize the agency's ability to safeguard and use properly the funding it receives from the city.

Exhibit 1. Funding Provided to Selected Outside Agencies, Fiscal Years 2002 – 2004

Agency	2002	2003	2004
American Jazz Museum, Inc.	\$ 0	\$ 467,571	\$ 674,000
Black Economic Union of Greater Kansas City	661,179	540,029	1,861,253
Bridging the Gap, Inc.	633,368	518,315	389,599
Cabot Westside Health Center	269,779	206,148	191,497
Children's Mercy Hospital	4,048,298	3,562,596	3,207,411
Community Assistance Council, Inc.	115,537	149,192	193,466
Community Development Corporation of Kansas City	308,441	341,099	587,987
Community LINC, Inc.	10,250	135,071	240,801
Community Movement for Urban Progress, Inc. <sup>4</sup>	50,621	158,636	171,604
Convention and Visitors Bureau of Greater Kansas City <sup>5</sup>	5,565,975	5,795,528	4,843,303
Economic Development Corporation of Kansas City, Mo.	1,533,495	1,220,648	1,196,964
Friends of the Zoo, Inc.	895,500	2,950,000	3,083,000
Good Samaritan Project, Inc.	898,228	895,805	722,978
Greater Kansas City Housing Information Center	153,014	192,765	201,093
Guadalupe Center, Inc.	444,326	388,902	416,870
Heartland Aids Resource Council, Inc.	179,485	205,984	111,174
Hispanic Economic Development Corporation	186,406	1,076,357	991,213
Hope House, Inc.	138,709	105,419	115,192
Housing and Economic Development Financial Corp.	17,892,861	24,385,586	12,054,531
Kansas City Area Transportation Authority	32,298,511	31,215,024	25,841,770
Kansas City Free Health Clinic	954,906	1,279,241	1,094,172
Kansas City Neighborhood Alliance	139,231	137,193	124,910
KCMC Child Development Corporation	226,256	237,186	220,959
Legal Aid of Western Missouri	772,486	758,962	547,324
Liberty Memorial Museum Association <sup>6</sup>	62,188	0	143,727
Mattie Rhodes Counseling and Art Center	13,805	183,087	288,119

<sup>3</sup> The Convention and Visitors Bureau of Greater Kansas City changed their accounting year during the review period. As a result, no audit for the agency was due and the Convention and Entertainment Centers, the eighth monitoring department, was not included in Exhibit 3.

<sup>4</sup> Doing business as Move UP, Inc.

<sup>5</sup> In 2004, the Convention and Visitors Bureau of Greater Kansas City changed from a fiscal year ending in April to a calendar year end. The agency's external auditor reviewed the financial statements as of December 31, 2003 and was not aware of any material modifications that should be made for them to be in conformity with U.S. generally accepted accounting principles.

<sup>6</sup> Liberty Memorial Museum Association's fiscal year ends on December 31. Since the association's first contractual payment from the city occurred in February 2004, Liberty Memorial Museum Association's audit findings will appear in our next report.



*Review of Audits of Outside Agencies*

Agency	2002	2003	2004
Metropolitan Ambulance Services Trust	2,263,571	4,419,422	10,157,310
Metropolitan Lutheran Ministry	301,274	325,636	228,665
Minority Contractors Association of Greater Kansas City, Inc.	119,445	183,203	154,301
Neighborhood Housing Services of Kansas City, Inc.	127,229	127,242	121,223
Newhouse, Inc.	165,579	141,643	188,457
Northland Neighborhoods, Inc.	244,147	257,642	224,131
Old Northeast, Inc.	315,011	252,479	254,135
Operation Breakthrough, Inc.	267,214	264,240	226,661
Planned Industrial Expansion Authority of Kansas City, Mo.	370,601	264,020	543,655
Rose Brooks Center, Inc.	657,373	158,640	239,439
Samuel U. Rodgers Health Center, Inc.	634,303	702,749	612,498
SAVE, Inc. and Affiliates	1,078,789	1,129,650	1,036,063
Swope Community Builders and Subsidiaries <sup>7</sup>	464,383	505,355	717,564
Swope Health Services <sup>8</sup>	883,554	839,917	790,322
Tax Increment Financing Commission of Kansas City, Mo.	19,499,861	28,180,797	34,606,336
Truman Medical Center, Inc.	28,825,649	23,674,157	22,484,939
Twelfth Street Heritage Development Corporation	245,022	191,700	163,477
Union Station Kansas City, Inc.	1,344,077	1,222,248	1,252,032
United Inner City Services, Inc.	170,885	134,078	125,882
United Services Community Action Agency	137,735	137,747	163,327
Westside Housing Organization, Inc.	147,273	260,866	248,316
Total	\$126,715,830	\$140,479,775	\$134,053,650

Source: City's Financial Management System (AFN).

<sup>7</sup> Formerly known as Midtown Community Development Corporation.

<sup>8</sup> Formerly known as Swope Parkway Health Center.

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## **Analysis**

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### **Summary**

Commercial auditors for 12 non-municipal agencies receiving \$100,000 or more in fiscal year 2004 reported accounting or internal control problems. For each of these agencies, we have prepared summaries of the specific weaknesses identified, the agency's planned corrective action, and the monitoring department's oversight activities. Seven agencies did not provide their financial reports for our review and an additional eight agencies did not provide an internal control review.

The financial condition of a majority of the 13 agencies that received \$1 million or more in funding in 2004 is of concern. We compiled financial indicators to evaluate an agency's liquidity, financial performance, and long term stability. Our financial indicator analysis found at least one weakness in the financial position of eight agencies. In addition, three of these agencies failed to provide their financial reports by January 31, 2005.

Boards of directors provide financial oversight for the agencies reviewed. We surveyed agencies about board qualifications and oversight of financial performance. All agencies that returned our survey reported that their board of directors or a committee reviewed the financial audit prepared by the agency's commercial auditor. All but one agency had at least one board or committee member who had an accounting or financial background. And eight agencies had board or committee members who were employed by or do business with the agency. One agency did not return the survey.

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### **Reports Reviewed**

Forty-one of 47 agencies submitted audit reports between March 5, 2004 and January 31, 2005. Commercial auditors expressed concerns about 12 of these agencies. The commercial auditors reported more agencies with findings and more findings than in the prior review period. (See Exhibit 2.) An agency can have multiple findings.

Exhibit 2. Type of Finding by Year<sup>9</sup>

Finding <sup>10</sup>	Number of Agencies				
	2001	2002	2003	2004	2005
Qualified Opinion	0	1	2	1	2
Disclaimer of Opinion	0	1	1	0	0
Reportable Condition	11	13	11	7	12
Material Weakness	2	4	4	1	4
Noncompliance	3	4	5	4	6
Agencies Reviewed	44	49	45	46	41
Agencies with Findings	11	15	14	8	12
Percent of Agencies with Findings	25%	31%	31%	17%	29%

Sources: Annual agency commercial audits.

Exhibit 3 is a summary, by monitoring department, of the reports we reviewed and the findings indicated by the agencies' commercial auditors. Eight agencies did not submit internal control analyses.

Exhibit 3. Summary of Reports Reviewed and Findings

Agency Name	Audit Year Ending	Type of Opinion	Material Weakness <sup>11</sup>	Reportable Condition <sup>11</sup>	Non-Compliance <sup>12</sup>
<b>City Development</b>					
American Jazz Museum, Inc.	4/30/2004	Unqualified	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
Community Assistance Council, Inc.	12/31/2003	Unqualified	N/P	N/P	N/P
Community Development Corporation of Kansas City	2/29/2004	Unqualified	No	No	No
Community Movement for Urban Progress, Inc.	6/30/2004	Unqualified	N/P	N/P	N/P
Economic Development Corporation of Kansas City, Missouri	4/30/2004	Unqualified	No	No	No
Greater Kansas City Housing Information Center	12/31/2003	Unqualified	No	No	No
Hispanic Economic Development Corporation	5/31/2004	Unqualified	No	No	No
Housing and Economic Development Financial Corporation	5/31/2003	<b>Qualified</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
Kansas City Neighborhood Alliance	12/31/2003	Unqualified	No	No	No
Neighborhood Housing Services of Kansas City, Inc.	9/30/2003	Unqualified	No	No	N/P
Northland Neighborhoods, Inc.	5/31/2004	Unqualified	No	No	No
Old Northeast, Inc.	12/31/2003	Unqualified	N/P	N/P	N/P

<sup>9</sup> The years within the exhibit indicate the year in which an agency's audit was included in this annual report.

<sup>10</sup> Finding terminology is defined on pages 8 and 9 of this report.

<sup>11</sup> N/P indicates an internal control report was not prepared.

<sup>12</sup> N/P indicates a compliance report was not prepared. Only agencies receiving at least \$500,000 annually in federal funding must comply with the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

<b>Agency Name</b>	<b>Audit Year Ending</b>	<b>Type of Opinion</b>	<b>Material Weakness<sup>11</sup></b>	<b>Reportable Condition<sup>11</sup></b>	<b>Non-Compliance<sup>12</sup></b>
Planned Industrial Expansion Authority of Kansas City, Missouri	4/30/2004	Unqualified	No	No	No
Swope Community Builders and Subsidiaries	12/31/2003	Unqualified	No	<b>Yes</b>	<b>Yes</b>
Tax Increment Financing Commission of Kansas City, Missouri	4/30/2004	Unqualified	No	<b>Yes</b>	No
Westside Housing Organization, Inc.	5/31/2004	Unqualified	No	No	No
<b>Environmental Management</b>					
Bridging the Gap, Inc.	4/30/2004	Unqualified	No	No	N/P
<b>Finance</b>					
Union Station Kansas City, Inc.	12/31/2003	Unqualified	N/P	N/P	N/P
<b>Health</b>					
Cabot Westside Health Center	12/31/2003	Unqualified	N/P	N/P	N/P
Children's Mercy Hospital	6/30/2004	Unqualified	N/P <sup>13</sup>	N/P	N/P
Good Samaritan Project, Inc.	12/31/2003	Unqualified	No	<b>Yes</b>	No
Heartland AIDS Resource Council, Inc.	12/31/2003	Unqualified	No	No	No
Kansas City Free Health Clinic	3/31/2004	Unqualified	No	<b>Yes</b>	No
Mattie Rhodes Counseling and Art Center	12/31/2003	Unqualified	N/P	N/P	N/P
Metropolitan Ambulance Services Trust	4/30/2004	Unqualified	<b>Yes</b>	<b>Yes</b>	N/P
Samuel U. Rodgers Health Center, Inc.	9/30/2003	Unqualified	No	<b>Yes</b>	<b>Yes</b>
SAVE, Inc. and Affiliates	6/30/2004	Unqualified	No	No	No
Swope Health Services	12/31/2003	Unqualified	No	No	No
Truman Medical Center, Inc.	6/30/2004	Unqualified	No	<b>Yes</b>	<b>Yes</b>
<b>Neighborhood and Community Services</b>					
Community LINC, Inc.	12/31/2003	Unqualified	No	No	No
Guadalupe Center, Inc.	12/31/2003	Unqualified	No	<b>Yes</b>	No
Hope House, Inc.	9/30/2003	Unqualified	No	No	No
KCMC Child Development Corporation	6/30/2003	<b>Qualified</b>	No	<b>Yes</b>	<b>Yes</b>
Legal Aid of Western Missouri	12/31/2003	Unqualified	No	No	No
Newhouse, Inc.	12/31/2003	Unqualified	No	No	No
Operation Breakthrough, Inc.	10/31/2003	Unqualified	<b>Yes</b>	<b>Yes</b>	No
Rose Brooks Center, Inc.	6/30/2004	Unqualified	No	No	No
United Inner City Services, Inc.	12/31/2003	Unqualified	No	No	No
United Services Community Action Agency	9/30/2003	Unqualified	No	No	No
<b>Parks and Recreation</b>					
Friends of the Zoo, Inc.	12/31/2002	Unqualified	N/P	N/P	N/P
<b>Public Works</b>					
Kansas City Area Transportation Authority	12/31/2003	Unqualified	No	No	No

Sources: Annual agency audits performed by the agencies' commercial auditors for the years ended as indicated above.

<sup>13</sup> Children's Mercy Hospital's internal control and compliance reports are still being completed.

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## **Agencies with Reported Problems**

Commercial auditors for 12 of the agencies submitting audits had findings they were required to report. We explain the terms used by the commercial auditors in reporting departures from established accounting principles; identify the agencies who departed from the identified principles; and then summarize by agency the specific weaknesses identified by the agencies' commercial auditors, the corrective actions agencies plan to take, and the oversight activities the monitoring departments have taken.

### **Qualified Opinions**

Auditors issue a qualified opinion when they see departures from generally accepted accounting principles (GAAP) or have major limitations on the scope of an audit, such as might occur from missing documentation. Except for the effects of the matters to which the qualification relates, the financial statements fairly present, in all material respects the entity's financial position, results of operations, and cash flow in conformity with generally accepted accounting principles. Two agencies received a qualified opinion on their financial statements. (See Exhibit 4.)

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#### **Exhibit 4. Agencies with Qualified Opinions**

- Housing and Economic Development Financial Corporation (May 31, 2003)
  - KCMC Child Development Corporation (June 30, 2003)
- 

### **Material Weaknesses**

A material weakness is a significant deficiency in which the design or operation of specific internal controls does not ensure that errors or irregularities material to the financial statements will be detected promptly by employees in the normal course of their work. A material weakness is also a reportable condition; however, reportable conditions are not always material weaknesses. Auditors for four agencies reported an internal control finding significant enough to be considered a material weakness. (See Exhibit 5.)

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#### **Exhibit 5. Agencies with Material Weaknesses**

- American Jazz Museum, Inc. (April 30, 2004)
  - Housing and Economic Development Financial Corporation (May 31, 2003)
  - Metropolitan Ambulance Services Trust (April 30, 2004)
  - Operation Breakthrough, Inc. (October 31, 2003)
-

## Reportable Conditions

Reportable conditions are deficiencies in the design or operation of an entity's internal control structure that could adversely affect the entity's ability to record and report financial data. Reportable conditions are of a less serious nature than material weaknesses. Nine agencies had at least one reportable condition that their auditors did not also classify as material weaknesses. (See Exhibit 6.)

### Exhibit 6. Agencies with Reportable Conditions

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- Good Samaritan Project, Inc. (December 31, 2003)
  - Guadalupe Center, Inc. (December 31, 2003)
  - Housing and Economic Development Financial Corporation (May 31, 2003)
  - Kansas City Free Health Clinic (March 31, 2004)
  - KCMC Child Development Corporation (June 30, 2003)
  - Samuel U. Rodgers Health Center, Inc. (September 30, 2003)
  - Swope Community Builders and Subsidiaries (December 31, 2003)
  - Tax Increment Financing Commission of Kansas City, Missouri (April 30, 2004)
  - Truman Medical Center, Inc. (June 30, 2004)
- 

## Noncompliance

Auditors for six agencies reported findings of noncompliance with laws, regulations, and contract or grant agreement provisions. We reviewed compliance reports from 30 agencies. Agencies receiving at least \$500,000 in federal funding and falling under OMB A-133 reporting requirements are required to report noncompliance. (See Exhibit 7.)

### Exhibit 7. Agencies with Noncompliance Findings

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- American Jazz Museum, Inc. (April 30, 2004)
  - Housing and Economic Development Financial Corporation (May 31, 2003)
  - KCMC Child Development Corporation (June 30, 2003)
  - Samuel U. Rodgers Health Center (September 30, 2003)
  - Swope Community Builders and Subsidiaries (December 31, 2003)
  - Truman Medical Center, Inc. (June 30, 2004)
-

## **American Jazz Museum, Inc. (April 30, 2004)**

**Funding:**           2003 - \$ 467,571  
                          2004 - \$ 674,000

### **Material weakness and reportable condition:**

American Jazz Museum Inc.'s accounting records were incomplete and fraught with errors and omissions. General ledger accounts were not reconciled with subsidiary records such as bank reconciliations, accounts receivable, and accounts payable listings. The agency reconstructed the records producing an auditable general ledger so year-end financial reports could be prepared.<sup>14</sup>

### **Management's response:**

American Jazz Museum, Inc. hired a new Finance Director, wants to provide additional employee training, and included an individual on the Board of Directors with an accounting or financial background.

### **Noncompliance:**

American Jazz Museum, Inc. failed to maintain records identifying the current balance of restricted funds, the nature of the restrictions, and the balance of funds that are unrestricted and available for use in conducting the business of the organization. American Jazz Museum, Inc. maintained no records relating to restricted funds past January 2004.<sup>14</sup>

### **Management's response:**

American Jazz Museum, Inc. is assigning an activity code so costs can be reported against restricted funds.

### **Monitoring department:**

City Development reported expanding its oversight of the American Jazz Museum, Inc. by adding a staff member to the agency's Finance Committee.

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<sup>14</sup> American Jazz Museum, Inc., Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings Related to the Financial Statement Audit Required to be Reported in Accordance with Generally Accepted Government Auditing Standards, JMA Chartered, for the year ending April 30, 2004.

## **Good Samaritan Project, Inc. (December 31, 2003)**

**Funding:**           2002 - \$ 898,228  
                          2003 - \$ 895,805  
                          2004 - \$ 722,978

### **Reportable condition:**

Good Samaritan Project auditors found little segregation of duties in the accounting functions due to the size of the accounting department.<sup>15</sup>

### **Management's response:**

The agency does not have the resources to fund additional support positions to further segregate accounting duties. To compensate, two members of the Board of Directors are involved in and monitor the financial management of the agency and written accounting policies and procedures are in place.

### **Monitoring department:**

The Health Department discussed the condition during its annual site visit with the agency. The agency's compensating actions address the issue.

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<sup>15</sup> Good Samaritan Project, Inc., Independent Auditors' Report on Compliance and on Internal Control Over Financial Report Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Dana F. Cole & Company, LLP, for the year ending December 31, 2003.



## **Guadalupe Center, Inc. (December 31, 2003)**

**Funding:**        2002 - \$ 444,326  
                      2003 - \$ 388,902  
                      2004 - \$ 416,870

### **Reportable condition:**

Guadalupe Center, Inc. did not consistently report revenues and expenses to the same account in various months. This included child development, elderly assistance, fundraising income, lease payments, and worker's compensation insurance payments. The Center also reversed prior period audit adjustments through net asset accounts.<sup>16</sup>

### **Management's response:**

Guadalupe Center, Inc. acquired new accounting software in an effort to improve coding of revenue and expense accounts and overall financial reporting. The Center is also considering implementing procedures to review coding of revenues and expenses monthly.

### **Monitoring department:**

Neighborhood and Community Services staff obtained Guadalupe Center, Inc.'s management letter.

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<sup>16</sup> Guadalupe Center, Inc., Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, Westbrook & Co., P.C., for the year ending December 31, 2003.

## **Housing and Economic Development Financial Corporation (May 31, 2003)**

**Funding:** 2002 - \$17,892,861  
2003 - \$24,385,586  
2004 - \$12,054,531

### **Qualified opinion:**

Housing and Economic Development Financial Corporation's (HEDFC's) commercial auditors were unable to obtain sufficient supporting documentation regarding certain federal grant expenditures of the Corporation and certain information regarding receivable valuation and transactions related to the Corporation's operating facility.<sup>17</sup>

### **Management response:**

We requested information from the HEDFC about corrective actions the Corporation is taking to correct the qualified opinion. As of January 31, 2005, we have not received a response.

### **Material weakness, reportable condition, and noncompliance:**

HEDFC's auditors noted disbursements to vendors for services that were not readily traceable to executed contracts or purchase orders.<sup>18</sup>

HEDFC's auditors noted the Corporation uses multiple financial systems to maintain its loan database and these two systems could not be readily reconciled to the general ledger. The auditors also noted that certain items on the general ledger were not readily traceable to any outstanding project or loan receivable.<sup>18</sup>

HEDFC's auditors noted an instance where the Corporation had to adjust its financial records to reduce the amount of receivables to agree with amounts confirmed by third parties.<sup>18</sup>

HEDFC expended funds for the historic restoration of two houses within the Beacon Hills Neighborhood. The Corporation had conflicting documentation regarding the eligibility of these properties for historic

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<sup>17</sup> Housing and Economic Development Financial Corporation, Independent Auditor's Report, Cochran, Head & Co., P.C. for the year ending May 31, 2003.

<sup>18</sup> Housing and Economic Development Financial Corporation, Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Cochran, Head & Co., P.C., for the year ending May 31, 2003.

preservation. Accordingly, the auditors are uncertain about the eligibility of funds spent, if any, in excess of normal restoration costs.<sup>18</sup>

**Management's response:**

HEDFC has contractual documents over a specified threshold undergo a legal review, is converting to one servicing database, and implementing procedures ensuring amounts currently posted to the accounting records in aggregate are redistributed by loan amount.

In responding to the finding of adjusting their receivables, HEDFC stated the adjustment was based on additional information obtained after the agency's year end. The Corporation reviewed the information and concurred with the adjustment. HEDFC management concluded the adjustment was not indicative of a lack of proper controls.

HEDFC maintains that funds may be used as historic renovations, citing Code of Federal Regulations Section 570.202. Management also contends the City Attorney's Office agrees with their position that the relevant agreements provide HEDFC the authority to acquire and restore properties without restrictions on costs.

**Material weakness and reportable condition:**

Twelve adjusting journal entries, totaling approximately \$26.4 million, were made during the audit. Without these entries the financial statements of the Corporation would have been materially misstated and the interim financial statements used by management throughout the year were likely similarly misstated. HEDFC's auditors believe these entries were not made in a timely fashion and in certain instances were not made until management was alerted by its auditors to the need for an entry.<sup>19</sup>

**Management's response:**

HEDFC management will review allowance accounts on a quarterly basis.

**Reportable conditions:**

HEDFC management told its auditors that the city had retained responsibility for the monitoring of compliance with the provisions of the Davis-Bacon Act. However, the auditors noted HEDFC management was not actively reviewing the city's compliance monitoring results.<sup>19</sup>

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<sup>19</sup> Housing and Economic Development Financial Corporation, Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Cochran, Head & Co., P.C., for the year ending May 31, 2003.

**Management's response:** HEDFC will be negotiating future contracts with the city to more clearly define responsibilities.

**Monitoring department:**

The Office of Management and Budget requested a detailed response from HEDFC addressing the agency's commercial auditor's reports.

City Manager's Office staff reviewed the agency's response.

Additionally, the City Manager's Office hired an outside accounting firm to examine further one of the agency's material weaknesses.

## **Kansas City Free Health Clinic (March 31, 2004)**

**Funding:**        2002 - \$ 954,906  
                      2003 - \$ 1,279,241  
                      2004 - \$ 1,094,172

### **Reportable condition:**

Kansas City Free Health Clinic's auditors noted situations where personnel had duties that were not properly segregated due to the small number of finance staff.<sup>20</sup>

### **Management's response:**

Kansas City Free Health Clinic management clarified their current procedures in a September 2004 letter to the Federal Audit Clearinghouse. Cash receipt duties are completed by the Accounting Manager and approved by the Director of Operations. The electronic accounting system logs cash disbursement activity by user name and password. Existing internal control procedures for payroll divide duties among staff members and an outside payroll company, and reportedly satisfy the agency's commercial auditors.

### **Monitoring department:**

The Health Department discussed the condition during its annual site visit with the agency. The agency's corrective actions address the issue.

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<sup>20</sup> Kansas City Free Health Clinic, Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, and Schedule of Findings and Questioned Costs, BKD, LLP, for the year ending March 31, 2004

## KCMC Child Development Corporation (June 30, 2003)

**Funding:** 2002 - \$ 226,256  
 2003 - \$ 237,186  
 2004 - \$ 220,959

### Qualified opinion and noncompliance:

The United States Department of Health and Human Services, Administration for Children and Families (ACF) intends to disallow \$455,992 in salary costs for the organization's Chief Executive Officer for fiscal years ended June 2000 through 2002.<sup>21</sup> Although ACF has not sought to disallow any of the CEO's salary costs for the fiscal year ended June 30, 2003, a potential disallowance of an underterminable amount may exist depending on the outcome of the organization's challenge to ACF.

### Management's response:

KCMC Child Development Corporation management filed and then dropped a written challenge appealing ACF's proposed disallowance to the Health and Human Services Departmental Appeals Board. The KCMC board is negotiating a payment plan.

### Reportable condition and noncompliance:

KCMC Child Development Corporation failed to follow up on single audit findings regarding its Head Start program for one of its subrecipients.<sup>22</sup>

### Management's response:

KCMC will review its subrecipient monitoring procedures to ensure that appropriate follow up is performed for subrecipient audit findings.

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<sup>21</sup> KCMC Child Development Corporation, Independent Auditor's Report, Notes to the Financial Statements, Report on Compliance with Laws and Regulations and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs, Cochran, Head & Co., P.C. for the year ending June 30, 2003.

<sup>22</sup> KCMC Child Development Corporation, Report on Compliance with Laws and Regulations and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Cochran, Head & Co., P.C., for the year ending June 30, 2003.

**Monitoring department:**

Neighborhood and Community Services requested KCMC Child Development Corporation's management letter. KCMC described actions taken to address their findings in a December 8, 2004 letter to Neighborhood and Community Services.

## **Metropolitan Ambulance Services Trust (April 30, 2004)**

**Funding:**        2002 - \$ 2,263,571  
                          2003 - \$ 4,419,422  
                          2004 - \$ 10,157,310

### **Material weakness and reportable conditions:**

Management did not record certain accounting entries during the year.<sup>23</sup>

Management did not reconcile cash balances during the entire 2004 fiscal year. Because of this, management did not identify errors in certain general ledger accounts and preliminary financial statements were not properly stated.<sup>23</sup>

Management has not adopted a standard methodology for estimating contractual and bad debt allowances. An individual developed the method used, but did not consider payor type. An audit adjustment of \$1.2 million was required for contractual and bad debt allowances.<sup>23</sup>

Accounts receivable general ledger amounts were not reconciled to the patient accounting system's detailed reports on a monthly basis causing an unreconciled difference to exist between the ledger and the report throughout the fiscal year.<sup>23</sup>

### **Management's response:**

Management is addressing the material weaknesses and reportable conditions by performing accounting functions, reconciling bank statements on a monthly basis, purchasing a billing and collection system that will assist staff to consistently analyze, estimate, and record uncollectible accounts, and reconciling accounts receivable between the general and subsidiary ledgers.

### **Monitoring department:**

The Health Department has requested that MAST report on how it is resolving these issues at the agency's next Finance Committee meeting.

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<sup>23</sup> Metropolitan Ambulance Services Trust, Letter to the Board of Trustees, KPMG LLP, for the year ending April 30, 2004.



## **Operation Breakthrough, Inc. (October 31, 2003)**

**Funding:**        2002 - \$ 267,214  
                      2003 - \$ 264,240  
                      2004 - \$ 226,661

### **Material weakness and reportable condition:**

Access to checks was not limited.<sup>24</sup>

Bus drivers using a credit card to purchase fuel did not always return the credit card and the receipt to accounts payable personnel. Unauthorized personnel had access to the credit card.<sup>24</sup>

Operation Breakthrough, Inc. did not have accounting procedures manuals describing the process to be used and the persons responsible for entering transactions into financial statements and ledgers.<sup>24</sup>

Duties are not segregated as accounts payable personnel record transactions, prepare checks, and reconcile bank statements.<sup>24</sup>

### **Management's response:**

Operation Breakthrough reports limiting access to checks to three individuals and establishing a sign-out sheet for checks; limiting the number of credit cards, requiring drivers to sign out credit cards, and forbidding drivers from passing on the cards to others; writing a draft manual covering the basics of how to distribute, record, and store documents; and having different employees mark checks or deposits and reconcile checks in the computerized accounting system.

### **Monitoring department:**

Neighborhood and Community Services staff asked for Operation Breakthrough, Inc.'s management letter.

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<sup>24</sup> Operation Breakthrough, Inc., Report of Independent Certified Public Accountants on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Schedule of Findings and Questioned Costs, Schedule of Reportable Conditions. Agler & Gaeddert Chartered, for the year ending October 31, 2003.

## Samuel U. Rodgers Health Center, Inc. (September 30, 2003)

**Funding:** 2002 - \$ 634,303  
 2003 - \$ 702,749  
 2004 - \$ 612,498

### Reportable condition:

Certain individuals have assigned duties, access, or the ability to process, record and monitor transactions in the accounting cycles, which are considered to be conflicting duties in an effective internal control structure.<sup>25</sup>

The Health Center did not reconcile bank accounts, accounts payable, and accounts receivable monthly and did not fully investigate and resolve all reconciling items.<sup>25</sup>

### Management's response:

Samuel U. Rodgers Community Health Center, Inc. management addressed the reportable conditions by hiring additional staff, reorganizing duties, and automating the reconciliation of outstanding checks.

### Noncompliance:

Out of a sample of 30 patient files with discounts totaling \$2,392, one file lacked current year documentation necessary to verify the patient's income and determine the appropriate discount percentage. Another patient was not given a discount although income verification in the file indicated a discount was appropriate.<sup>26</sup>

### Management's response:

Samuel U. Rodgers Community Health Center, Inc. management reported addressing its noncompliance finding by correcting an error in the patient management system and intensifying periodic audits of patient household records.

### Monitoring department:

The Health Department discussed the conditions during its annual site visit with the agency. The agency's corrective actions address the issues.

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<sup>25</sup> Samuel U. Rodgers Health Center, Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements in Accordance with *Government Auditing Standards*, Schedule of Findings and Questioned Costs, BKD LLP, for the year ending September 30, 2003.

<sup>26</sup> Samuel U. Rodgers Health Center, Inc., Independent Accounts' Report on Compliance and Internal Control over Compliance with Requirements Applicable to Major Federal Awards Programs, Schedule of Findings and Questioned Costs, BKD, LLP, for the year ending September 30, 2003.

## **Swope Community Builders and Subsidiaries (December 31, 2003)**

**Funding:**        2002 - \$ 464,383  
                      2003 - \$ 505,355  
                      2004 - \$ 717,564

### **Reportable condition and noncompliance:**

Swope Community Builders and Subsidiaries did not file its Financial Status Report within the time frames contained in the grant agreement. Untimely filing could result in the loss of federal funding for the program.<sup>27</sup>

### **Management's response:**

Swope Community Builders expects to file future reports on a timely basis with the hiring of additional accounting staff.

### **Monitoring department:**

The issue reported by the agency's commercial auditors regarding Financial Status Reports is unrelated to the city contract. City Development does not anticipate taking any further action.

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<sup>27</sup> Swope Community Builders and Subsidiaries, Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, Independent Auditors' Schedule of Findings and Questioned Costs, PricewaterhouseCoopers LLP, for the year ending December 31, 2003.

## **Tax Increment Financing Commission of Kansas City, Missouri (April 30, 2004)**

**Funding:**        2002 - \$ 19,499,861  
                      2003 - \$ 28,180,797  
                      2004 - \$ 34,606,336

### **Reportable condition:**

The Commission currently does not have an adequate system in place to record and reconcile the amount of tax increment financing receivables from the various taxing authorities.<sup>28</sup>

### **Management's response:**

Neither the TIF Commission nor its commercial auditor have access to the confidential tax information needed to develop and verify the amount of TIF receivables. Because of restrictions on who may have access to tax records, it appears unlikely that the TIF Commission will be able to resolve this reportable condition.

### **Monitoring department:**

City Development staff obtained an explanation from Commission staff.

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<sup>28</sup> Tax Increment Financing Commission of Kansas City, Missouri, Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Cochran, Head & Co., P.C., for the year ending April 30, 2004.

## **Truman Medical Center, Inc. (June 30, 2004)**

**Funding:**           2002 - \$ 28,825,649  
                          2003 - \$ 23,674,157  
                          2004 - \$ 22,484,939

### **Reportable condition and noncompliance:**

Truman Medical Center, Inc. allocated salaries to a grant funded program based on a percentage of the employee's compensation and did not maintain contemporaneous time studies as required by the applicable cost principles.<sup>29</sup>

### **Management's response:**

Truman Medical Center, Inc. reported hiring a Government Grants and Contracts Administrator. Employees funded by multiple grant awards will reportedly conduct time studies on a monthly basis with the Grants Administrator assisting in monitoring the time studies and labor hours charged to grant awards.

### **Monitoring department:**

Truman Medical Center, Inc.'s audit contained an error which required the audit be reprinted and delayed release. The Health Department has requested a copy of the audit and plans to work with the agency to address the conditions.

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<sup>29</sup> Truman Medical Center, Inc., Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs, Schedule of Findings and Questioned Costs, BKD, LLP, Fourteen-Month Period Ended June 30, 2004.

## Agencies Not Submitting Reports

Seven agencies that collectively received over \$17 million in city funding during fiscal year 2004, did not submit their most recent financial audits within the timeframe established by the Council. City code requires that contracts with agencies include a provision that audits be submitted to the city within six months of the agency's fiscal year end.<sup>30</sup> Although their fiscal years ended more than six months earlier, the agencies had not submitted copies of their financial audit by January 31, 2005. As a consequence, recent information on the accounting and internal control structures of these agencies is not available to elected officials, the City Manager, or monitoring departments. (See Exhibit 8.)

Exhibit 8. Funding of Non-Reporting Agencies

Agency	Audit Year Ending	Funding FY 2004
Black Economic Union of Greater Kansas City	12/31/2003	\$ 1,861,253
Friends of the Zoo, Inc.	12/31/2003	3,083,000
Housing and Economic Development Financial Corporation	5/31/2004	12,054,531
KCMC Child Development Corporation	6/30/2004	220,959
Metropolitan Lutheran Ministry <sup>31</sup>	6/30/2004	228,665
Minority Contractors Association of Greater Kansas City, Inc.	5/31/2004	154,301
Twelfth Street Heritage Development Corporation	5/31/2004	163,477
<b>Total</b>		<b>\$17,766,186</b>

Sources: City's Financial Management System (AFN).

In addition to the seven agencies listed in Exhibit 8, the Convention and Visitors Bureau of Greater Kansas City switched from an April 30<sup>th</sup> to a December 31<sup>st</sup> fiscal year end. The agency's December 31, 2004 audited financial statements will cover the time period from May 1, 2003 to December 31, 2004. And, the Liberty Memorial Museum Association did not receive city payments until the year ending December 31, 2004.

## Financial Analysis for Liquidity, Performance, and Long Term Stability

The city has a significant stake in agencies that receive more than \$1 million dollars in funding. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To keep the Council informed, we calculated several financial ratios for the agencies receiving \$1 million or more from the city during fiscal year 2004.

<sup>30</sup> Kansas City Code of Ordinances Section 2-113 (4).

<sup>31</sup> Previously a January 31 fiscal year end.

We compiled five financial indicators. These indicators were selected to examine liquidity (current ratio and days of cash on hand), performance (operating margin and change in unrestricted net assets), and long term stability (debt to net assets). Because no single ratio gives a complete picture of the financial health of an organization, ratios and financial data should be viewed together to obtain an overall sense of an organization.

Not everyone calculates ratios using the same definitions. The definitions used for our analysis came from *Financial Management for Public, Health and Not-for-Profit Organizations* by Steven A. Finkler.<sup>32</sup>

### **Liquidity Indicators**

Liquidity ratios assess short-term risks. They focus on whether an organization has enough cash and liquid resources to meet near term obligations. We calculated two liquidity ratios, the current ratio and the days of cash on hand.

**Current Ratio.** The current ratio is one of the most common measures of liquidity. It compares an entity's current assets (those assets that become cash or are used up within a year) to current liabilities (liabilities due within a year). This ratio measures an organization's ability to meet obligations as they become due. If the current ratio is too low, an organization may not be able to meet its obligations. If the ratio is very high, resources might be more productively employed in other ways.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Days of Cash on Hand.** Days of cash on hand is another widely used liquidity ratio. It measures how long an organization could meet its daily expenses using just the resources on hand. It compares cash and near cash assets to daily operating expenses. Bad debt and depreciation are excluded from operating expenses because they do not require a cash outflow. Too low a ratio suggests that an agency couldn't meet its obligations if something happened that cut off future cash inflows. Too high a ratio suggests that cash could be better utilized to provide resources or services.

$$\text{Days of Cash on Hand} = \frac{\text{Cash} + \text{Marketable Securities}}{(\text{Operating Expenses} - \text{Bad Debt} - \text{Depreciation})/365}$$

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<sup>32</sup> Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations* (Upper Saddle River, New Jersey: Prentice Hall, 2001).

## Performance Indicators

While public service organizations do not provide services primarily to make a profit, organizations need to earn income to be financially healthy, to improve and expand services, and to meet future challenges. Financial resources are a means to an end. Without adequate financial resources, an organization generally can not achieve its mission. To measure financial performance, we examine two indicators, the change in unrestricted net assets and the operating margin.

**Change in Unrestricted Net Assets.** Not-for-profits and governmental organizations use the term net assets. Net assets, owners' equity, and fund balance consist of amounts that have been contributed to an organization and profits or surpluses that have been earned and retained over time. These terms represent the residual amount when liabilities are subtracted from assets. Net assets may be unrestricted, temporarily restricted, and permanently restricted. Increases in net assets are generally caused by revenues and decreases are generally caused by expenses.

**Operating Margin.** Operating margin generally measures the percent of earnings (operating revenue less operating expenses) generated for each dollar of operating revenue received. For not-for-profit entities, this ratio compares the change in unrestricted net assets with total unrestricted revenues and other support. A positive percentage would indicate that the organization earned so many cents for every dollar of revenue. A negative ratio indicates an entity's operating expenses are greater than its operating revenues and the entity is consuming operating reserves.

$$\text{Operating Margin} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues and Other Support}}$$

## Long Term Stability Indicators

While liquidity ratios are used to assess an organization's ability to meet short term obligations, debt to net assets assesses the long term viability of an agency.

**Debt to Net Assets.** The debt to net asset ratio measures the extent to which an organization supports its activities by using debt. The ratio calculates the amount of debt used to finance the acquisition of its assets. The ratio is calculated by dividing an agency's total debt by its net assets. Net assets are a measure of equity. Debt ratios can be calculated using a range of different definitions for debt. We use total liabilities. Debt allows agencies to undertake programs and enhance services that they



otherwise could not do. Excessive debt levels risk the continued existence of an agency.

$$\text{Debt to Net Assets} = \frac{\text{Total Debt}}{\text{Total Net Assets}}$$

Some agencies have negative net assets. Net assets are negative when an agency's liabilities are greater than their total assets. We did not calculate the debt to net assets ratio when an agency's net assets were negative.

### **Criteria for Financial Conditions**

We established evaluation criteria to determine whether an agency's financial condition was positive, mixed, or needed to be watched. Our criteria for a positive financial condition are a current ratio above one; more than 30 days of cash on hand; an increase in unrestricted net assets; a positive operating margin; and a debt to net assets ratio below 50 percent. If ratios for all three indicators (liquidity, performance, and long-term stability) met our criteria we considered the agency's financial position to be positive. If criteria for one of the indicators was not met, we considered the agency's financial position to be mixed. If two indicators were not met or an agency did not provide their financial report for inclusion in our analysis, we believe that the agency should be watched. Half of the agencies receiving \$1 million from the city in 2004 should be watched. (See Exhibit 9.)

**Exhibit 9. Financial Condition of Agencies Receiving \$1 Million in 2004**

Financial Condition	No. of Agencies
Positive	2
Mixed	4
Watch	4
Watch-Financial Reports Not Submitted	3

### **Financial information for the Black Economic Union is not current.**

Based on financial ratios calculated through 2002, the financial condition of the Black Economic Union should be watched. While having more cash on hand, the agency's current ratio remained below 1.0, meaning the agency has more current liabilities than current assets. Performance indicators improved in 2002 as unrestricted net assets and operating margin became positive. The agency's long term stability indicator – debt to net assets ratio – remained high. (See Exhibit 10.)

Exhibit 10. Black Economic Union Financial Ratios

Measure	Audit Year Ending			
	12/31/00	12/31/01	12/31/02	12/31/03
Current Ratio	0.64	0.74	0.72	Not Submitted
Days of Cash on Hand	26	33	103	
Change in Unrestricted Net Assets	(\$390,406)	(\$1,285,460)	\$931,571	
Operating Margin	(47%)	(140%)	83%	
Debt to Net Assets	0.64	0.97	0.95	

Sources: Black Economic Union of Greater Kansas City December 31, 2000, December 31, 2001, and December 31, 2002 Audited Financial Statements, Kumar Consulting Professional Association and City Auditor's Office calculations.

**Reclassification of unrestricted net assets affects Children's Mercy Hospital's performance ratios.** The agency's Board of Directors revised bylaws and operating principles in 2004 thereby causing the reclassification of some unrestricted net assets to temporarily restricted net assets. As a result, the agency's financial indicators are mixed. The reclassification caused a decrease in unrestricted net assets. The operating margin was also negative. The agency's liquidity and long-term solvency indicators remained positive. (See Exhibit 11.)

Exhibit 11. Children's Mercy Hospital Financial Ratios

Measure	Audit Year Ending			
	6/30/01	6/30/02	6/30/03	6/30/04
Current Ratio	2.64	2.49	1.89	2.14
Days of Cash on Hand	28	46	39	30
Change in Unrestricted Net Assets	N/A <sup>33</sup> (Restatement)	\$1,867,083	\$15,092,662	(\$103,739,358)
Operating Margin	N/A <sup>33</sup> (Restatement)	1%	4%	(24%)
Debt to Net Assets	0.25	0.40	0.42	0.38

Sources: Children's Mercy Hospital June 30, 2002, June 30, 2003, and June 30, 2004, Audited Financial Statements, KPMG, LLP and City Auditor's Office calculations.

**The Convention and Visitor's Bureau of Greater Kansas City's financial condition should be watched.** The agency's current ratio dropped below one in 2003. Both performance indicators are negative as unrestricted net assets continued to decrease and the agency's operating margin remained negative. Long term stability is also a concern, as the agency's debts were greater than its assets. (See Exhibit 12.)

<sup>33</sup> Children's Mercy Hospital, Inc.'s unrestricted net assets were restated in 2001 due to a cumulative effect of a change in accounting principle to record the investment in the net assets of the Children's Mercy Hospital Foundation.

Exhibit 12. Convention and Visitor's Bureau of Greater Kansas City Financial Ratios

Measure	Audit Year Ending			
	4/30/01	4/30/02	4/30/03	12/31/03 <sup>34</sup>
Current Ratio	2.67	2.79	1.73	0.98
Days of Cash on Hand	23	27	15	36
Change in Unrestricted Net Assets	\$29,657	(\$192,498)	(\$260,019)	(\$609,340)
Operating Margin	0.4%	(3%)	(4%)	(13%)
Debt to Net Assets	1.99	2.20	4.01	Negative <sup>35</sup>

Sources: Convention and Visitor's Bureau of Greater Kansas City April 30, 2002 and April 30, 2003 Audited Financial Statements, and December 31, 2003 Accountants Review Report and Financial Statements, House Park & Dobratz, P.C. and City Auditor's Office calculations.

**The Economic Development Corporation of Kansas City, Missouri's financial condition should be watched.** While the current ratio is above 1.0, other financial criteria were not met. The agency had less than a week of cash on hand. Performance and long term stability indicators show that the agency is not generating enough revenue. The agency's unrestricted net assets decreased each of the past three years and its debt was greater than its assets during the last two years. (See Exhibit 13.)

Exhibit 13. Economic Development Corporation of Kansas City, Missouri Financial Ratios

Measure	Audit Year Ending			
	4/30/01	4/30/02	4/30/03	4/30/04
Current Ratio	1.38	0.60	0.51	1.08
Days of Cash on Hand	8	7	15	6
Change in Unrestricted Net Assets	\$28,440	(\$239,433)	(\$296,684)	(\$182,845)
Operating Margin	0.89%	(8%)	(8%)	(5%)
Debt to Net Assets	0.42	1.40	Negative <sup>36</sup>	Negative <sup>36</sup>

Sources: Economic Development Corporation of Kansas City Missouri's April 30, 2001, April 30, 2002, April 30, 2003 and April 30, 2004 Audited Financial Statements, Cochran, Head & Co., P.C. and City Auditor's Office calculations.

**Financial information for Friends of the Zoo, Inc. is not current.** The agency's financial condition should be watched. Liquidity indicators for Friends of the Zoo, Inc. are positive. Performance and long term stability indicators, however, are areas of concern. Friends of the Zoo, Inc.'s unrestricted net assets decreased in 2001 and 2002 and its operating margin was negative. Additionally, the agency's debt is three-fourths the value of its net assets. (See Exhibit 14.)

<sup>34</sup> For the eight months ending December 31, 2003.

<sup>35</sup> The Convention and Visitors Bureau of Greater Kansas City reported negative net assets of \$266,595 as of December 31, 2003.

<sup>36</sup> The Economic Development Corporation of Kansas City, Missouri reported negative net assets of \$79,580 as of April 30, 2003 and negative net assets of \$262,425 as of April 30, 2004.

Exhibit 14. Friends of the Zoo, Inc. Financial Ratios

Measure	Audit Year Ending			
	12/31/00	12/31/01	12/31/02	12/31/03
Current Ratio	5.78	2.81	4.78	Not Submitted
Days of Cash on Hand	225	244	103	
Change in Unrestricted Net Assets	\$11,795	(\$629,400)	(\$490,820)	
Operating Margin	0.26%	(17%)	(3%)	
Debt to Net Assets	0.41	0.70	0.76	

Sources: Friends of the Zoo, Inc.'s December 31, 2001 and December 31, 2002 Audited Financial Statements, Deloitte & Touche and City Auditor's Office calculations.

**Financial information for the Housing and Economic Development**

**Financial Corporation is not current.** Although the liquidity, performance, and long-term stability indicators show the financial position of the agency as positive, we reported concerns about the agency's operations in *The City's Housing Program and the Role of the Housing and Economic Development Financial Corporation of Kansas City, Missouri* (August 2004). We reported significant deficiencies in the agency's operation. We found the agency to be financially weak and dependent upon the city for funds. (See Exhibit 15.)

Exhibit 15. Housing and Economic Development Financial Corporation Financial Ratios

Measure	Audit Year Ending				
	5/31/00	5/31/01	5/31/02	5/31/03	5/31/04
Current Ratio	8.30	4.06	1.83	1.09	Not Submitted
Days of Cash on Hand	486	254	197	286	
Change in Unrestricted Net Assets	\$133,266	\$636,338	\$40,613	\$124,356	
Operating Margin	4.33%	8.76%	0.31%	0.76%	
Debt to Net Assets	0.01	0.05	0.11	0.15	

Sources: Housing and Economic Development Financial Corporation's May 31, 2001; May 31, 2002; and May 31, 2003 Audited Financial Statements, McGladrey & Pullen, LLP and City Auditor's Office calculations.

**The Kansas City Area Transportation Authority's financial condition is positive.** The agency's liquidity, performance, and long-term stability ratios are all positive. The agency has cash available, is generating revenues, and has little debt relative to net assets. (See Exhibit 16.)

Exhibit 16. Kansas City Area Transportation Authority Financial Ratios

Measure	Audit Year Ending			
	12/31/00	12/31/01	12/31/02	12/31/03
Current Ratio	1.43	1.42	1.63	1.57
Days of Cash on Hand	234	246	281	251
Change in Unrestricted Net Assets	\$2,480,420	(\$1,630,252)	\$10,327,361	\$3,152,490
Operating Margin	4%	(3%)	14%	5%
Debt to Net Assets	0.26	0.23	0.21	0.17

Sources: Kansas City Area Transportation Authority's December 31, 2001, December 31, 2002, and December 31, 2003 Audited Financial Statements, Cochran, Head & Co., P.C. and City Auditor's Office calculations.

**Kansas City Free Health Clinic's financial condition is positive.**

Liquidity, performance, and long-term stability ratio for the agency are all positive. The operating margin while still positive, declined in 2003, and unrestricted net assets grew at a declining rate. (See Exhibit 17.)

Exhibit 17. Kansas City Free Health Clinic Financial Ratios

Measure	Audit Year Ending			
	3/31/01	3/31/02	3/31/03	3/31/04
Current Ratio	10.69	6.59	4.86	6.34
Days of Cash on Hand	76	53	54	42
Change in Unrestricted Net Assets	\$819,535	\$1,745,178	\$145,756	\$14,790
Operating Margin	15%	27%	3%	0.24%
Debt to Net Assets	0.08	0.24	0.21	0.15

Sources: Kansas City Free Health Clinic's March 31, 2002 and March 31, 2003 Audited Financial Statements, Grant Thornton LLP, March 31, 2004 Audited Financial Statements, BKD LLP and City Auditor's Office calculations.

**Metropolitan Ambulance Service Trust's financial condition should be watched.** The agency has virtually no cash on hand and more debt than net assets. Performance indicators improved during the last audit period becoming positive. We reported financial problems with the Metropolitan Ambulance Services Trust in our July 2003 performance audit and March 2004 follow-up audit of the agency. (See Exhibit 18.)

Exhibit 18. Metropolitan Ambulance Services Trust Financial Ratios

Measure	Audit Year Ending			
	4/30/01	4/30/02	4/30/03	4/30/04
Current Ratio	2.12	1.64	1.19	1.67
Days of Cash on Hand	14	2	0.01	0.18
Change in Unrestricted Net Assets	(\$925,904)	(\$3,676,439)	(\$1,224,080)	\$1,533,099
Operating Margin	(2%)	(10%)	(5%)	5%
Debt to Net Assets	1.33	1.80	1.83	1.25

Sources: Metropolitan Ambulance Services Trust's April 30, 2002, April 30, 2003, and April 30, 2004 Audited Financial Statements, KPMG, LLP and City Auditor's Office calculations.

**SAVE, Inc. and Affiliates' financial condition is mixed.** While SAVE, Inc. and Affiliates' liquidity and long-term stability ratios are favorable, the agency's performance ratios are cause for concern. The agency's unrestricted net assets decreased and operating margins were negative during each of the last four years. (See Exhibit 19.)

Exhibit 19. SAVE, Inc. and Affiliates Financial Ratios

Measure	Audit Year Ending			
	6/30/01	6/30/02	6/30/03	6/30/04
Current Ratio	2.00	5.06	2.09	5.74
Days of Cash on Hand	20	53	35	33
Change in Unrestricted Net Assets	(\$150,721)	(\$125,391)	(\$109,337)	(\$135,103)
Operating Margin	(6%)	(6%)	(4%)	(4%)
Debt to Net Assets	0.15	0.16	0.19	0.19

Sources: SAVE, Inc. and Affiliates June 30, 2001, June 30, 2002, June 30, 2003, and June 30, 2004 Audited Financial Statements, Ifft & Co., P.A. and City Auditor's Office calculations.

**Tax Increment Financing Commission Of Kansas City, Missouri's financial position is mixed.** The agency's liquidity and performance indicators are favorable, however, the long-term stability indicator is high. Substantial reimbursable developer costs are included as liabilities in the agency's debt to net asset ratio. (See Exhibit 20.)

Exhibit 20. Tax Increment Financing Commission of Kansas City, Missouri Financial Ratios

Measure	Audit Year Ending			
	4/30/01	4/30/02	4/30/03	4/30/04
Current Ratio	1.05	76.79	1.67	1.79
Days of Cash on Hand	96	69	179	170
Change in Unrestricted Net Assets	(\$351,306)	(\$5,680,617)	\$10,420,389	\$5,025,148
Operating Margin	(2%)	(19%)	27%	10%
Debt to Net Assets	11.66	12.76	10.24	9.11

Sources: Tax Increment Financing Commission of Kansas City, Missouri's April 30, 2001, April 30, 2002, April 30, 2003, and April 30, 2004 Audited Financial Statements, Cochran, Head & Co. P.C. and City Auditor's Office calculations.

**Truman Medical Center, Incorporated's financial position should be watched.** Liquidity indicators are inconsistent as days of cash on hand is low. The long-term stability indicator is weak as debt is nearing the value of net assets. Performance indicators remained positive, but operating margin is nearing zero. (See Exhibit 21.)

Exhibit 21. Truman Medical Center, Inc. Financial Ratios

Measure	Audit Year Ending			
	4/30/01	4/30/02	4/30/03	6/30/04 <sup>37</sup>
Current Ratio	2.09	2.39	2.32	2.09
Days of Cash on Hand	16	14	19	13
Change in Unrestricted Net Assets	(\$8,932,204)	\$218,589	\$1,610,112	\$1,129,969
Operating Margin	(4%)	0.1%	1%	0.3%
Debt to Net Assets	0.36	0.60	0.87	0.91

Sources: Medical Center, Inc.'s April 30, 2002, April 30, 2003, and June 30, 2004 Audited Financial Statements, BKD, LLP and City Auditor's Office calculations.

**Union Station Kansas City's financial condition is mixed.** The agency's liquidity and long-term stability ratios met our criteria. The agency's operating margin is negative and unrestricted net assets declined. (See Exhibit 22.)

Exhibit 22. Union Station Kansas City, Inc. Financial Ratios

Measure	Audit Year Ending			
	12/31/00	12/31/01	12/31/02	12/31/03
Current Ratio	2.39	1.66	1.61	1.52
Days of Cash on Hand	321	351	188	30
Change in Unrestricted Net Assets	(\$169,340)	(\$13,665,428)	(\$8,134,530)	(\$16,720,793)
Operating Margin	(0.5%)	(66%)	(35%)	(148%)
Debt to Net Assets	0.35	0.22	0.15	0.15

Sources: Union Station Kansas City, Inc.'s December 31, 2001, December 31, 2002 and December 31, 2003 Audited Financial Statements, KPMG, LLP and City Auditor's Office calculations.

## Boards of Directors Provide Financial Oversight

In 2002 Congress passed the Sarbanes-Oxley Act. The act is intended to restore public confidence after recent accounting scandals. Although the act pertains to publicly traded entities, non-profit entities would benefit from following the act's requirements that the Board of Directors have a member with financial expertise.

We sent a questionnaire to each agency and found that all of the reporting agencies responded that their board of directors or committee reviewed the financial audit prepared by the agency's commercial auditors; eight agencies had board or committee members who are employed by or do business with the agency; and all but one agency had at least one board or committee member who had an accounting or financial background. The Black Economic Union of Greater Kansas City did not return the questionnaire. (See Exhibit 23.)

<sup>37</sup> The 2004 financial ratios for Truman Medical Center, Inc. are based on a 14-month period.

## Exhibit 23. Financial Oversight Questionnaire Responses

<b>Agency</b>	<b>Board review report</b>	<b>Board members employed by or doing business with agency</b>	<b>Board members with financial or accounting background</b>
American Jazz Museum, Inc.	Yes	No	Yes
Black Economic Union of Greater Kansas City		Questionnaire Not Returned	
Bridging the Gap, Inc.	Yes	Yes	Yes
Cabot Westside Health Center	Yes	Yes	Yes
Children's Mercy Hospital	Yes	No	Yes
Community Assistance Council, Inc.	Yes	No	Yes
Community Development Corporation of Kansas City	Yes	Yes	Yes
Community LINC, Inc.	Yes	Yes	Yes
Community Movement for Urban Progress	Yes	No	No
Convention and Visitors Bureau of Greater Kansas City	Yes	No	Yes
Downtown Community Improvement District	Yes	No	Yes
Economic Development Corporation of Kansas City, Missouri	Yes	No	Yes
Friends of the Zoo, Inc.	Yes	No	Yes
Good Samaritan Project, Inc.	Yes	No	Yes
Greater Kansas City Housing Information Center	Yes	No	Yes
Guadalupe Center, Inc.	Yes	Yes	Yes
Heartland AIDS Resource Council, Inc.	Yes	No	Yes
Hispanic Economic Development Corporation	Yes	No	Yes
Hope House, Inc.	Yes	Yes	Yes
Housing and Economic Development Financial Corporation	Yes	No	Yes
Kansas City Area Transportation Authority	Yes	No	Yes
Kansas City Free Health Clinic	Yes	No	Yes
Kansas City Neighborhood Alliance	Yes	No	Yes
KCMC Child Development Corporation	Yes	No	Yes
Legal Aid of Western Missouri	Yes	No	Yes
Liberty Memorial Museum Association	Yes	Yes	Yes
Mattie Rhodes Counseling and Art Center	Yes	No	Yes
Metropolitan Ambulance Services Trust	Yes	No	Yes
Metropolitan Lutheran Ministry	Yes	No	Yes
Minority Contractors Association of Greater Kansas City, Inc.	Yes	No	Yes
Neighborhood Housing Services of Kansas City, Missouri, Inc.	Yes	No	Yes
Newhouse, Inc.	Yes	No	Yes
Northland Neighborhoods, Inc.	Yes	No	Yes
Old Northeast, Inc.	Yes	No	Yes



<b>Agency</b>	<b>Board Review Report</b>	<b>Board members employed by or doing business with Agency</b>	<b>Board members with financial or accounting background</b>
Operation Breakthrough, Inc.	Yes	No	Yes
Planned Industrial Expansion Authority of Kansas City, Missouri	Yes	No	Yes
Rose Brooks Center, Inc.	Yes	No	Yes
Samuel U. Rodgers Health Center, Inc.	Yes	No	Yes
SAVE, Inc. and Affiliates	Yes	No	Yes
Swope Community Builders and Subsidiaries	Yes	No	Yes
Swope Health Services	Yes	No	Yes
Tax Increment Financing Commission of Kansas City, Missouri	Yes	No	Yes
Truman Medical Center, Inc.	Yes	Yes	Yes
Twelfth Street Heritage Development Corporation	Yes	No	Yes
Union Station Kansas City, Inc.	Yes	No	Yes
United Inner City Services, Inc.	Yes	No	Yes
United Services Community Action Agency	Yes	No	Yes
Westside Housing Organization, Inc.	Yes	No	Yes